

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01 CIAE-00
CIEP-01 COME-00 DODE-00 EB-08 FPC-01 H-01 INR-07
INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06
OES-06 SP-02 SS-15 STR-04 TRSE-00 ACDA-07 PA-01 PRS-01
EURE-00 /103 W

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P R 101833Z FEB 77
FM AMEMBASSY LONDON
TO SECSTATE WASHDC PRIORITY 532
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY COPENHAGEN
AMEMBASSY DUBLIN
AMEMBASSY LUXEMBOURG
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY THE HAGUE
USMISSION EC BRUSSELS
USMISSION OECD PARIS
AMCONSUL EDINBURGH

C O N F I D E N T I A L SECTION 1 OF 2 LONDON 2435

E.O. 11652: GDS
TAGS: ENRG UK
SUBJ: OFFSHORE OIL: 5TH ROUND PRODUCTION LICENSES

REF: LONDON 2346

1. THE ANNOUNCEMENT OF CONDITIONAL AWARDS OF FIFTH
ROUND LICENSES FEBRUARY 9 BY SECSTATE FOR ENERGY BENN
WAS REPORTED REFTEL. THE INITIAL REACTIONS OF PRESS AND
INDUSTRY OBSERVERS FOCUSED ON THE QUALITY AND LOCATION
OF THE BLOCKS AWARDED, THE GLARING ABSENCE OF ONE OF THE
NORTH SEA PIONEERS, AMOCO, AS A RESULT OF ITS FAILURE TO
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REACH A MAJORITY STATE PARTICIPATION AGREEMENT, AND
THE EXTENT TO WHICH THE BRITISH NATIONAL OIL CORPORATION
(BNOC) ESTABLISHED ITSELF AS AN OPERATOR IN ITS OWN
RIGHT.

2. THE PRIME ACREAGE IN THE MORAY FIRTH AREA, AS
ANTICIPATED, WAS DISTRIBUTED AMONG THE MAJOR COMPANIES

SO AS TO ENSURE MAINTENANCE OF A REASONABLY SATISFACTORY LEVEL OF EXPLORATION ACTIVITY FOR THE NEXT FEW YEARS. SHELL/ESS AND TEXACO, OCCIDENTAL, MOBIL, CHEVRON AND UNION LED CONSORTIA OBTAINED THESE MOST SOUGHT AFTER BLOCKS. BP TOOK UP BY FAR THE LARGEST NUMBER OF BLOCKS OR PART BLOCKS OFFERED (13 OUT OF 44). BP DID NOT OBTAIN ANY OF THE MORAY FIRTH AWARDS, HOWEVER, AND ITS ALLOCATIONS INCLUDE TWO UNENTICING BLOCKS WEST OF SCOTLAND IN THE AREA DISPUTED BY IRELAND AND THE UK. AS EXPECTED, INDUSTRY DISPLAYED LITTLE INTEREST IN THE WESTERN APPROACHES, WHICH LIE ON THE FRINGE OF THE DISPUTED MEDIAN LINE BETWEEN THE UK AND FRANCE. AS A PRE-CONDITION OF FIFTH ROUND LICENSING AWARDS, BNOC OBTAINED A MINIMUM 51 PERCENT INTEREST IN ALL BLOCKS EXCEPT FOR BLOCKS IN WHICH THE BRITISH GAS CORPORATION HAS AN INTEREST.

3. THE EXCLUSION OF AMOCO, ONE OF THE NORTH SEA PIONEERS, CAEM AS A RESULT OF LACK OF AGREEMENT WITH HMG OVER MAJORITY STATE PARTICIPATION IN COMMERCIAL FINDS MADE PURSUANT TO PREVIOUS LICENSING ROUNDS. AN AMOCO SPOKESMAN SAID THE COMPANY WAS DISAPPOINTED BUT HOPES TO BE INVOLVED IN FUTURE ROUNDS. PRESS REPORTS MADE MUCH OF SECRETARY OF STATE FOR ENERGY BENN STICKING TO HIS INSISTENCE THAT COMPANIES HAD TO AGREE THE BASIC TERMS OF STATE PARTICIPATION IF THEY WISHED TO BE CONSIDERED FOR FIFTH ROUND ALLOCATIONS.

4. THE BNOC (PLUS BRITISH GAS) 51 PERCENT SHARE IN ALL
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44 BLOCKS CAME AS NO SURPRISE. MORE SURPRISING IS THE FACT THAT IT WILL SERVE AS OPERATOR IN FOUR BLOCKS INVOLVING BP, SHELL/ESSO, HAMILTON BROTHERS AND KERR MCGEE. DETAILS OF THE INDIVIDUAL OPERATING AGREEMENTS MUST BE WORKED OUT WITH BNOC AND THE PROPOSED LICENSEES (WHO HAVE TWO WEEKS TO ACCEPT THE OFFER) WITHIN A PERIOD OF FOUR MONTHS. A STANDARD OPERATING AGREEMENT HAS BEEN NEGOTIATED BETWEEN THE DEPARTMENT OF ENERGY, BNOC, AND THE UK OFFSHORE OPERATORS ASSOCIATION (UKOOA) WHICH SHOULD FACILITATE MATTERS CONSIDERABLY, SINCE THE BASIC APPROACH TO THE WORK PROGRAM REQUIREMENT ALREADY HAS BEEN INFORMALLY OUTLINED TO DEPARTMENT OF ENERGY OFFICIALS BY MANY OPERATORS. ASSUMING BNOC PAYS ITS SHARE OF ALL EXPLORATION EXPENSES, AS IS INTENDED, IT IS ESTIMATED THAT BNOC COULD SPEND MORE THAN 100 MILLION POUNDS TO CARRY OUT THE MINIMUM DRILLING PROGRAMS REQUIRED FOR ALL BLOCKS. BNOC CHAIRMAN LORD KEARTON IS REPORTED TO HAVE SAID THE STATE COMPANY WAS UNSUCCESSFUL WITH A NUMBER OF ITS APPLICATIONS. END UNCLASSIFIED.

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5. COMMENT: IN AN ADVANCE BRIEFING OF E/C MINISTER
AND ENERGY ATTACHE, JOHN LIVERMAN (DEPSEC, D/ENERGY)
VOLUNTEERED THAT US COMPANIES ACCOUNT FOR ABOUT 45
PERCENT OF CONDITIONAL AWARDS MADE TO PRIVATE SECTOR
FIRMS, JUST SLIGHTLY BELOW PERCENTAGES IN PREVIOUS
LICENSING ROUNDS. SIMILARLY, CONTINENTAL EURIPENA
COMPANIES HAVE A SLIGHTLY SMALLER SHARE AS THE STAKE OF
UK OWNED COMPANIES INCREASED. LIVERMAN SAID HMG HAD
BEEN WORKING ON THE DETAILS OF THE FIFTHROUND FOR
ALMOST TWO YEARS AND A DETAILED STUDY OF THE FINANCIAL
STRENGTH AND TECHNICAL CAPABILITY HAD BEEN THE MAJOR
FACTORS IN DETERMINING WHICH COMPANIES WERE FINALLY
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SELECTED. AS IN THE PAST, NO PUBLIC EXPLANATION MAKING INVIDIOUS COMPARISONS AMONG THE FIRMS WILL BE MADE. LIVERMAN SAID IT WAS CLEAR, HOWEVER, THAT US COMPANIES WERE HIGHLY THOUGHT OF, HAD BEEN GIVEN SOME REALLY CHOICE ACREAGE, AND HAD NOT BEEN DISCRIMINATED AGAINST IN ANY WAY.

6. LIVERMAN SAID BOTH SIDES REGRETTED THE EXCLUSION OF AMOCO. HE CONFIRMED THAT FAILURE TO AGREE ON PARTICIPATION WAS THE PRIMARY CAUSE FOR AMOCO'S ABSENCE, BUT HE ALSO NOTED IT HAD ONLY BID FOR A SMALL NUMBER OF BLOCKS. IN RESPONSE TO OUR QUERY, LIVERMAN CONFIDED THAT MURPHY (AND ODECO) WOULD BE SIGNING A MEMORANDUM AGREEING TO PARTICIPATION WITHIN A MATTER OF HOURS OF SECSTATE BENN'S ANNOUNCEMENT OF THE AWARDS, THUS LEAVING AMOCO THE ONLY HOLDOUT AMONG THE US COMPANIES.

7. LIVERMAN OBSERVED THERE HAD BEEN AN ABUNDANCE OF INTEREST IN THE MORE ATTRACTIVE ACREAGE IN THE MORAY FIRTH AREA. HOWEVER, THE RECENT MESA FIND HAD COME AFTER THE CLOSE OF BIDDING SO THAT THE MOST PROMISING BLOCK OF ALLADJACENT TO THIS FIND HAD GONE UNALLOCATED. HE CONFIRMED THAT HMG HOPES DRILLING ON THE BLOCKS AWARDED WILL BEGIN THIS YEAR AND THAT THE SIXTH LICENSING ROUND WILL BE HELD IN A YEAR OR SO. BY THEN THERE MIGHT WELL BE A RESOLUTION OF THE DISPUTE WITH FRANCE OVER THE SOUTHERN APPROACHES. HE WAS NOT SANGUINE ABOUT THE CHANCE FOR AGREEMENT ON BLOCKS IN DISPUTE WITH IRELAND. THESE BLOCKS WEST OF SCOTLAND ARE IN WATER FROM 600 TO 1,000 FEET AND WILL TAKE SOME TIME TO EXPLORE AND DEVELOP. IN ANY EVENT BP IS THE OPERATOR AND NO US FIRMS ARE INVOLVED.

8. LIVERMAN CONCLUDED THAT IT WAS REASSURING TO HAVE THE FIFTH ROUND PROVE THAT THE UK SECTOR OF THE NORTH SEA REAMINS AN ATTRACTIVE INVESTMENT, FOR THE ENTIRE OIL

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INDUSTRY. HMG FEELS THAT THE PERIOD OF UNCERTAINTY OF NORTH SEA OIL POLICY IS OVER, THAT A NUMBER OF SMALLER US AND BRITISH FIRMS AMY BE UNHAPPY WITH THEIR APPARENT LACK OF SUCCESS IN THE FIFTH ROUND, BUT THAT EXPLORATION AND DEVELOPMENT SHOULD PROCEED IN A MANNER REASONABLY SATISFACTORY TO GOVERNMENT AND INDUSTRY. ASSUMING THINGS GO AS PLANNED, DEVELOPMENT WORK RELATED TO FIFTH ROUND EXPLORATION SHOULD BEGIN IN 1980-81. ARMSTRONG

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